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IN THE

Supreme Court of the United States

TIFFANY (NJ) INC. AND TIFFANY AND COMPANY,
Petitioners,

v.

EBAY INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

BRIEF *AMICUS CURIAE* OF COTY INC. IN SUPPORT OF PETITIONERS

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BRIEF *AMICUS CURIAE* OF COTY INC. IN SUPPORT OF PETITIONERS

INTEREST OF *AMICUS CURIAE* [1]

Amicus Curiae Coty Inc., a 100-year old company based in New York City, is a leader in the interna-

[1] Pursuant to Supreme Court Rule 37.2, the *Amicus* states that all parties have consented to the filing of this brief, and letters evidencing such consent are being filed with the Court. Counsel of record for all parties received notice at least 10 days prior to the due date for any response. Pursuant to Supreme Court Rule 37.6, the *Amicus* further states that no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *Amicus*, its members, or its counsel made a monetary contribution to its preparation or submission.

tional beauty industry, with substantial operations in Europe and other parts of the world. Coty is the world's largest fragrance company, with annual sales of fragrances and luxury cosmetics of approximately $3.5 to $4 billion. Coty markets more than forty brands of fragrances that are protected with trademark registrations in the United States and many other countries.[2] Coty markets both its own proprietary brands and licensed fashion and celebrity brands which Coty helps develop.

Coty has suffered substantial harm from the widespread sale of counterfeit versions of its branded goods on eBay's on-line auction markets in both the United States and Europe, particularly on eBay Germany. All these online auction market systems have the same basic features and rules. Coty has followed a three-prong program to address counterfeiting on those systems: (1) policing sales of its products offered on eBay, by searching and screening the site and notifying eBay of thousands of infringing offers; (2) taking direct action against sellers of infringing products;[3] and (3) attempting to persuade eBay to adopt available technological countermeasures to reduce the incidence of counterfeiting.

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[2] These brands include, for example, MARC JACOBS, CALVIN KLEIN, COOL WATER, LANCASTER,CERRUTI, CHLOE, CHOPARD, DAVIDOFF, PHAT FARM, JENNIFER LOPEZ, JETTE LOOP, JIL SANDER, JOOP!, KENNETH COLE, NAUTICA, NIKOS, SARAH JESSICA PARKER, VERA WANG PRINCESS, AND VIVIENNE WESTWOOD.

[3] For example, without any cooperation from eBay, Coty's investigative efforts resulted in the recent arrest by German authorities of one eBay seller who apparently was involved in organized crime.

SUMMARY OF ARGUMENT

This case presents an important and recurring question of law concerning contributory trademark infringement. It asks the Court to determine the duty of care that a marketplace owes trademark owners to prevent the sale of counterfeit goods. The decision below creates a conflict among the courts of appeals as to whether an entity that maintains and derives substantial profits from a marketplace, in which extensive sales of counterfeit goods are known to occur, has any duty to prevent the sale of counterfeits. The case squarely presents the issue of the marketplace's liability based on a fully developed factual record.

The question of the liability of the marketplace arises here in the context of the rapidly developing field of internet commerce. Resolution of this issue is vital to the future of this large and rapidly growing field of commerce.

Courts in this country and around the world are currently addressing the question of the market owner's legal obligations in light of the explosion in the sales of counterfeit and infringing products that has occurred over electronic marketplaces in recent years. Several courts in European countries have already found that eBay has an affirmative duty to take measures to prevent sales of counterfeit products that occur through its on-line auction markets.

In the United States, the standards that determine a person's liability for contributory trademark infringement have been developed by the courts as matter of federal common law. Since the Court last addressed liability for contributory trademark infringement nearly three decades ago, *Inwood Labor-*

atories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982), the internet has revolutionized the world of commerce. Unfortunately, it also has transformed the problem of counterfeiting by eliminating transaction costs and greatly reducing the infringer's risks of identification and enforcement. Many leading companies, such as Tiffany and Coty, have been substantially harmed by the epidemic of counterfeit sales that are occurring through electronic markets. This is exacerbated by the unsettled state of the law concerning the legal duty of the market provider to take countermeasures.

The continued development of legitimate commerce throughout the world would be significantly facilitated if United States courts spoke with one voice on the question of the duty of care that marketplaces must exercise to prevent sales of counterfeit products through their services. As the federal government's Strategic Plan for Intellectual Property notes: "So long as the rules and rights for intellectual property are predictable and enforceable, Americans will continue to lead in the effort to improve global prosperity."[4]

For these reasons, *Amicus Curiae* Coty submits that the Court should grant the Petition for a Writ of Certiorari and should take this opportunity to resolve the conflict concerning the duty of care owed by a marketplace to prevent the sale of counterfeit goods through the facility it offers the public.

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[4] WhiteHouse.gov, *2010 Joint Strategic Plan on Intellectual Property Enforcement* (2010) ("Joint Strategic Plan") at 5, http://www.whitehouse.gov/sites/default/files/omb/assets/intellectualpro perty/intellectualproperty_strategic_plan.pdf.

ARGUMENT

I. THIS CASE PRESENTS AN IMPORTANT QUESTION OF DEFINING THE DUTY OF ONLINE MARKETPLACES TO PREVENT THE SALE OF COUNTERFEIT PRODUCTS.

The development of global internet commerce, notably online auction sites and marketplaces like eBay, has greatly facilitated economic growth and consumer convenience. Unfortunately, this marketplace innovation also has had a significant dark side. It has created expansive opportunities for counterfeiters by eliminating transaction costs and risks of identification for counterfeiters. In turn, this causes economic harm to brand owners and in many cases exposes consumers to dangerous counterfeit products.

The legal systems in many countries are simultaneously wrestling with how to regulate these negative externalities. Courts are attempting to define the legal obligations of the persons who sponsor these new marketplaces through which sales of infringing products occur. They are also considering the proper allocation of responsibility, as between the trademark owner and the facility in which sales occur, to police the marketplace and prevent such illegal commerce.

A. Sales of Counterfeit Products through On-line Auction Markets Is a Significant Global Problem.

The explosion of counterfeiting activity on the internet is undisputed. As the federal government has recently concluded:

> The Internet and other technological innovations have revolutionized society and the way we

> obtain information and purchase products. Lowering barriers to entry and creating global distribution channels, they have opened new markets and opportunities for American exports of information, goods and services, including enabling small and medium sized businesses to reach consumers worldwide. These innovations have also facilitated piracy and counterfeiting on a global scale. Counterfeiters have developed sophisticated distribution networks. Today, the Internet allows for a person who illegally "camcords" a film at a movie theater in Moscow to distribute a bootleg copy across the globe with the push of a button. A company in Delhi producing counterfeit pharmaceuticals can instantly create a global market. Counterfeiters in Shenzhen making routers and switches can infiltrate supply chains in the U.S.
>
> These thieves impose substantial costs. They depress investment in technologies needed to meet global challenges. They put consumers, families and communities at risk. They unfairly devalue America's contribution, hinder our ability to grow our economy, compromise good, high-wage jobs for Americans and endanger strong and prosperous communities.

Joint Strategic Plan at 5.

eBay and its competitor companies have created and offer the public electronic marketplaces in which large volumes of sales occur, but in which millions of counterfeit products are also being sold to unsuspecting consumers in fraudulent transactions. Counterfeiters have benefited substantially from these novel electronic marketplaces. Online auction sites such as eBay allow counterfeiters to correspond with individ-

ual buyers at low cost and low risk. The counterfeiter can do business with multiple customers simultaneously without revealing his identity or true location. Shipments to fulfill the transactions occur by mail or courier, which allows the seller to avoid personal contact with the buyers and greatly reduce the risk of detection. Unless the entity that maintains the electronic market through which transactions occur takes appropriate counter measures, counterfeit items – whether jewelry, perfume, electronics, or pharmaceuticals – can be sold anonymously, across borders, with little investment by the seller, and with little risk of detection and prosecution.

Counterfeit products, many of which are sold through eBay and other online marketplaces,[5] have caused significant harm to consumers. The Better Business Bureau has explained: "The consequences can be serious and even fatal. Knock off perfumes, for instance, have been found to contain urine and counterfeit children's clothing typically lacks flame retardant."[6] A wide variety of counterfeit products,

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[5] Electrical Contractor Magazine, *Modern Day Piracy* (May 26, 2009), http://www.counterfeitscankill.com/news/?fa=show&id=3353&cms=1 ("The same is true for many other electrical products. A recent visit to eBay uncovered offers from Hong Kong sellers of counterfeit lithium batteries for as little as 99 cents for an order of 10 batteries. The counterfeiters copy the labels of the genuine batteries, but the real versions of these batteries sold in the United States actually are made in the United States.").

[6] BBB.org, *Tips to Counter/Act Counterfeiting* (July 7, 2005), http://www.bbb.org/us/article/tips-to-counter/act-counterfeiting-549; Lawrence Delevingne, GreatReporter.com, *Nasty knockoffs: Dangerous fake products enter US at record pace* (May 27, 2008), http://greatreporter.com/mambo/content/view/1685/4/.

including auto parts (notably brake pads), cigarettes, and condoms have caused direct physical harm to consumers.[7] Counterfeit electronic products, such as extension cords, fans, lights, and coffee makers, have caused electrical fires,[8] shocks, explosions and electrocutions.[9] For example, a seven-year old boy was killed by electrocution from a faulty counterfeit Nintendo Gameboy charger.[10] Counterfeit cell phone batteries also have caused apartment fires and burned purchasers.[11]

Online marketplaces, including eBay, are well aware, through persistent complaints from consumers and brand owners, that a substantial percentage of goods sold through the markets they operate are counterfeit. The record in this case clearly demonstrated this point. See Petitioner's Appendix ("Pet.App.") at 6a. eBay and other online marketplace/auction providers obtain substantial revenues from the sale of counterfeit products; they receive the same fees from the sale of both legitimate and illegitimate products. *Id.* at 5a. The record below also unambiguously showed that eBay served as

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[7] *Id.*

[8] ABC 7 News, *Counterfeit Electrical Products Dangerous to Consumers* (Jan, 28, 2008), http://www.wjla.com/news/stories/0108/491549.html.

[9] U.S. Consumer Product Safety Commission, *CPSC Warns of Dangerous Counterfeit Electrical Products* (May 9, 2007), http://www.cpsc.gov/cpscpub/prerel/prhtml07/07185.html.

[10] Electrical Contractor Magazine, *Modern Day Piracy* (May 26, 2009), http://www.counterfeitscankill.com/news/?fa=show&id=3353&cms=1.

[11] CBS News, *Hazardous Counterfeit Products* (June 25, 2004), http://www.cbsnews.com/stories/2004/06/25/eveningnews/consumer/main626211.shtml.

more than a passive host and played an active and profitable role in bringing buyers and sellers of products together. *Id.* at 4a-5a; 13a-14a. Under the court of appeals' decision, however, despite its knowledge that sales of a substantial number of counterfeit products are occurring through its marketplace, it has no legal obligation other than to prevent the sale of a *specific* counterfeit item that the brand owner has brought to its attention. *Id.* at 27a-28a.

B. Large Numbers of Counterfeit Coty Products Have Been Sold Through eBay's Electronic Marketplaces.

Tiffany's experience with eBay, as described in the decision below, is similar in many respects to that faced by thousands of brands, although most other owners do not have Tiffany's resources to detect and report fraudulent products. *Amicus Curiae* Coty wishes to illustrate this problem for the Court from its own experience with eBay. Coty's experience confirms that not only is the eBay problem common to many brandowners, but also that it is technologically possible for eBay to develop filters that would allow it to meet a duty to prevent the sale of counterfeits.

In 2001, customer complaints made Coty aware that significant sales of counterfeit products were occurring through eBay, especially through its German electronic market www.ebay.de. During 2002, Coty discussed the issue with eBay and sought to persuade it to adopt a cooperative monitoring and filtering system through which Coty and eBay would join forces to detect and prevent infringements. Coty collected data concerning the types of infringements that were occurring through eBay Germany, including identification of typical patterns of infringing

offers, volumes, and heavy sellers. A study conducted in 2004-2005 showed there were approximately 100,000 auctions of major Coty brands through this market over a four month period. Coty found that at least ten percent, and in the case of certain brands *up to eighty percent*, of the offers were for counterfeits. Despite Coty's aggressive efforts to prevent fraudulent sales, as of late 2008, Coty still detected an average of between five to ten counterfeit offers per day on eBay Germany.

Coty has expended substantial amounts of time and money to police offers of its products through eBay Germany. Its in-house officials and outside law firm devote hundreds of hours per year to monitoring activity on that system, which, as of late 2008, was averaging 750 new offers on Coty brands per day. Coty's Global Director of Enforcement spends a significant part of his time on efforts to prevent sale of fraudulent products through eBay and in negotiations with the market maker on the counterfeiting issue. A full-time Coty employee devoted approximately twenty percent of her time to monitoring eBay Germany. Coty's outside counsel spent approximately 900 hours of paralegal and 350 hours of attorney time per year in monitoring activity on e-Bay and in preparing and submitting complaints to eBay about instances of probable counterfeiting.

Further, Coty employs an outside investigation firm that makes test purchases of potential counterfeits on eBay and pursues other techniques to address these frauds. Coty also has dealt with numerous complaints from deceived consumers who purchased counterfeit Coty products on eBay. Needless to say, these policing efforts have been very expensive.

Coty has submitted many thousands of notice letters to eBay reporting that it has detected sales of counterfeit products over its European system and demanding that eBay investigate and take action against the fraudulent sellers. For example, from January to July 2003, Coty submitted 1,118 complaints (12.5 per day on average) warning eBay of actual infringements, relating to 384 sellers. From July 2004 through December 2007, Coty submitted another 13,153 warning letters to eBay, including 160 letters requesting suspension of notorious repeat infringers.

C. Coty's Unsuccessful Efforts to Persuade eBay to Take Countermeasures to Prevent the Sale of Counterfeits.

Starting in 2003, Coty held numerous meetings and telephone conferences with eBay Germany to inform it of Coty's factual findings concerning sales of counterfeit versions of its products and to request that eBay adopt technological countermeasures to prevent future infringement. Coty identified and provided eBay with criteria for auctions of its fragrances that raise a red flag for a high likelihood of counterfeiting. They included: auctions lasting only one day (*e.g.*, likely to evade detection by the brand owner prior to sale); auctions with a low starting sale price (*e.g.*, one euro); and unfavorable seller reviews by purchasers. Coty requested that eBay adopt additional software filters to screen out and take down offers that meet these criteria, or at least to require the seller of a product whose offer had raised red flags to verify its authenticity.

Coty also demonstrated to eBay how its policing effort had been able to link different aliases back to the same seller of counterfeit branded products,

based on common electronic information about the seller included in its offers, such as a common address, a common telephone number, or a common digital photographic file attached to multiple offers. Coty submitted that if a beauty company with limited technical capacity could make such links, then as a world leader in on-line technology, eBay should be able to develop software countermeasures that would utilize information in its system to detect fraudulent offers before they were listed and to take proactive steps to prevent future infringements from occurring. eBay declined.

Instead of effective detection measures, eBay offers the VeRo program, which is essentially a notice-and-takedown system. VeRO provides a mechanism by which a trademark owner may seek to have a *specific* fraudulent offer taken down, but only if the brand owner can detect the fraudulent offer after it is listed but before the transaction closes. See Pet. App., 63a-64a. It does not provide a mechanism for blocking or filtering fraudulent offers from being listed or for preventing future sales of counterfeits, even by the same seller. From its experience, Coty has concluded that the VeRO process is not an effective response to the counterfeiting problem. The VeRO program is entirely backward looking. VeRO operates on a case-by-case basis and provides no mechanism by which the owner may demand that eBay remove future listings by sellers who repeatedly offer counterfeits. In Coty's experience, the effectiveness of VeRO depends primarily on the owner's ability to afford full-time monitoring.

As a result of eBay's refusal to take effective detection measures, over the years, Coty has filed 26 lawsuits against eBay in Germany, which are at

various stages in the judicial process. Through these cases, Coty seeks to obtain court rulings that would require eBay to address the high level of counterfeiting occurring through its system.

In Coty's experience, its persistent interventions with and litigation against eBay have resulted in a significant reduction in the number of sales of counterfeit versions of its products through eBay Germany. eBay has not informed Coty of what technological countermeasures it has taken to reduce the level of sales of counterfeit versions of its products; from Coty's perspective, the eBay anti-infringement measures remain a black box. Coty has determined, however, that there has been a significant reduction in the number of counterfeit offers since it first took up this problem with eBay, which demonstrates that eBay can indeed take action to decrease counterfeit activity on its service.

While the situation has improved, the level of counterfeit Coty products offered through eBay remains unacceptable. Despite Coty's continuous, expensive policing efforts, Coty still discovers an average of between five to ten counterfeit offers per day on eBay Germany. If Coty were to cease its policing or eBay were to discontinue the countermeasures it appears to have taken, the level of infringing activity undoubtedly would return to a much higher level.

D. Decisions by Several European Courts Have Ordered eBay to Take Counter Measures to Prevent the Sales of Counterfeit Products Through Its Marketplace.

With the development of on-line auction websites, sales of counterfeit products through electronic mar-

ketplaces have become a broadly-shared international problem. Courts in many other countries are concurrently grappling with the question how to apply traditional law governing liability for contributory trademark infringement to an entity that operates an electronic marketplace through which such sales are occurring.

In particular, several European courts have considered whether eBay has a duty to prevent sales of counterfeit goods through its systems, as opposed to whether it is sufficient for an electronic market maker simply to react to specific offers of fraudulent products brought to its attention by the brand owner. These cases have arisen in several European countries when trademark owners have sued eBay concerning sales of counterfeit versions of their products. A number of European courts have found eBay liable for failure to take sufficiently aggressive steps to prevent counterfeiting after it had received appropriate notice that infringing sales were occurring, holding that merely taking down individual offers after the owner had discovered and reported the fraud was insufficient to discharge eBay's legal duty.

For example, in *S.A. Louis Vuitton Malletier v. eBay Inc.*, Tribunal de commerce [commercial court] Paris, B ch., Case No. 2006077799, June 30, 2008, Slip Op. (Fr.)[12], the French court found that eBay had an affirmative duty to take steps to prevent the sale of counterfeit versions of trademarked products through eBay's European system and awarded the

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[12] Just as Coty offered the court of appeals in its *Amicus Curiae* brief filed below, Coty offers the Court that it will lodge copies and translations of the European decisions with the Clerk should the Court so wish.

brand owner damages of $40 million. This decision was affirmed on appeal. *See Parfums Christian Dior v. eBay Inc.*, Cour d'appel [regional court of appeal] Paris, Sept. 2, 2010, Case No. ___, Slip Op. (Fr.)[13] (upholding lower court findings that eBay was liable for failure to prevent sales of counterfeit perfumes, cosmetics, and handbags).

Similarly, in *Société Hermes International v. SA eBay France*, Tribunal de grande instance [T.G.I.] [ordinary court of original jurisdiction] Troyes, June 4, 2008, Case No. 06/02604, Slip Op. (Fr.), the French court found that eBay had an affirmative duty to take steps to prevent the sale of counterfeit versions of trademarked products through eBay's European system. The court ordered eBay to take specific remedial steps to prevent future sales of counterfeits, such as requesting that sellers provide information demonstrating the authenticity of the product they were selling and requiring eBay to alert buyers if the seller failed to respond. This decision was affirmed on appeal. *See SA eBay France v. Hermès Int'l* Cour d'appel [regional court of appeal] Reims, July 20, 2010, Case No. ___, Slip Op. (Fr.), (Reims appeals court upheld the lower chamber's finding that eBay International was liable for a vendor's sale of counterfeit Hermès bags and accessories through its electronic marketplace).[14]

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[13] *See also* BNA Electronic Commerce and Law Report, *Auctioneer eBay a Broker, Not 'Passive' Site Host, Thus Liable for Counterfeits*, 15 ECLR 1384 (September 15, 2010), *available at* http://news.bna.com/epln/EPLNWB/split_display.adp?fedfid=17789323&vname=eiplnotallissues&fn=17789323&jd=17789323&lf=eml&emc=epln:epln:109.

[14] *See also* BNA Electronic Commerce and Law Report, *French Court Finds eBay, as Publisher, Liable for Sales of*

In *Stokke A/S v. eBay Int'l AG*, Hanseatisches Oberlandesgericht [OLGZ] [Hanseatic provincial court of appeal], July 24, 2008, Case No. 3U 216 06, Slip Op. (F.R.G.), *aff'd*, Oberlandesgericht [OLGZ] Hamburg, Case No. 3 U 216/06, Wettbewerb in Recht und Praxis [WRP] 12/2008, at 1569-1593 (F.R.G.), a German court concluded that eBay must take affirmative, and not merely reactive, steps to prevent the sale of counterfeit products. The court found that eBay had a duty to act to prevent the sale of counterfeits and that its activities under the VeRO program failed to satisfy this duty. In reaching this conclusion, it also found that eBay had been alerted by numerous prior notifications that counterfeits had been offered repeatedly and for many years. The court concluded that eBay knew that the VeRO program and/or keyword filters had failed to eliminate all fraudulent offers and that eBay had sufficient notice, given the number of complaints, that trademark violations would occur in the future unless it took further preventative efforts. The court held that eBay's knowledge was sufficient to establish liability, both as an indirect and a direct infringer, for its failure to act. The ruling was affirmed on appeal in 2010.

Similarly, *Amicus Curiae* Coty Inc.'s sister company obtained a ruling requiring Marktplaats, an eBay affiliate, to refrain from the publishing of further commercial offers for perfumes where no contact details of the sellers are displayed, unless the operator of the website has implemented

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Counterfeit Hermès Bags, 15 ECLR 1187 (July 28, 2010), *available at* http://news.bna.com/epln/EPLNWB/split_display.adp?fedfid=17550759&vname=eiplnotallissues&fn=17550759&jd=a0c3u8y8t8&split=0.

sufficient measures to force the sellers to publish their contact details. *Coty Prestige Lancaster vs. Kijiji and Marktplaats*, Oberlandesgericht [OLGZ] [provincial court of appeal], Frankfurt, June 20, 2008, Case No. 3-12 O 63/08, Slip Op. (F.R.G.) *aff'd*, Oberlandesgericht [OLGZ] Hamburg, Nov. 23, 2008, Case No. 6 U 139/08, Slip Op. (F.R.G.).

Here, eBay's principal defense to Tiffany's claim for contributory trademark infringement was that due to the nature of an electronic marketplace, it never had physical possession of the goods offered for sale and thus was never in a position to know which goods were counterfeit. Pet.App, 5a, 57a, 59a-60a. eBay raised the same defense in the European cases, but those courts held that this excuse did not obviate eBay's legal duty and that eBay was required to use the technological tools available to it to create preventative counter measures. For example, in the *Stokke* case, *supra*, the German Court ordered eBay to review every advertisement showing a picture of a high chair for the particular brand of high chair that was the subject of the complaint.

Several courts have also recognized the importance that the courts of one jurisdiction speak with a single voice on the important issue of the duty of the operator of an electronic marketplace. A number of European courts have now referred these cases to the European Court of Justice. *See, e.g., L'Oreal S.A. v. eBay International AG*, [2009] EWHC 1094 (Ch.), 2009 WL 1403418 (U.K.) (English High Court of Justice acknowledged that the European High Court of Justice's guidance is required); *Scarlet v. SABAM*, Cour d'appel [CA] [regional court of appeal] Brussels,

Feb. 5, 2010, Case No. C-70/10, Slip Op. (Belg.)[15]; *Netlog v. SABAM*, Tribunal de première instance [T.P.I.] [ordinary court of original jurisdiction] Brussels, 2010, Case No. C-360/10, Slip Op. (Belg.).

The European experience demonstrates that the question presented to this Court by the Petition is not unique to this case, but rather is widespread and recurrent. Those developments further show the importance for the future development of commerce that the law of a jurisdiction that hosts electronic marketplaces have a clear definition of the legal duty of the market provider when presented with detailed information concerning the repeated offering and sale of counterfeit products through its market. Finally, the European experience validates the importance that the courts of a jurisdiction speak with one voice on the issue of the legal duty of a market provider. These considerations support Tiffany's position that the Court should grant its Petition and should resolve the conflict among the courts of appeals concerning the legal duty of the market provider to take counter measures when presented with clear evidence that fraudulent products are being sold throughout the marketplace that it offers the public.

II. THE DECISION OF THE SECOND CIRCUIT CREATED A CONFLICT AMONG THE COURTS OF APPEALS CONCERNING THE DUTY OF AN ENTITY THAT PROVIDES A MARKET THROUGH WHICH COUNTERFEIT PRODUCTS ARE SOLD.

The decision of the Second Circuit created a conflict among the courts of appeals in the law of contribu-

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[15] *Available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:113:0020:0020:EN:PDF.

tory trademark infringement concerning the duty of care of an entity that offers the public a market through which counterfeit goods are sold. Its decision threatens to cause substantial harm to trademark owners and creates uncertainty, for both owners and entities that provide marketplaces through which trademarked goods are sold, concerning the respective obligations for policing counterfeit and infringing activity.

Counterfeit activity is a large and growing problem, and the markets through which trademarked products are sold are increasingly national or international in scope. Accordingly, it is important the law provide a uniform standard for the duty of care applicable to market makers that have knowledge that counterfeits are being sold through their services. The legal principles governing liability for contributory trademark infringement have been developed by the federal courts, applying common law principles.

Coty therefore submits that the Court should grant the Petition, resolve the conflict among the courts of appeals, and establish a uniform national standard for the duty of care of market providers.

A. The Underlying Legal Standard for Contributory Trademark Infringement.

The general standard governing liability for contributory trademark infringement is set forth in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982):

> if a manufacturer or distributor . . . continues to supply its product to one whom it *knows or has reason to know* is engaging in trademark infringement, the manufacturer or distributor is

> contributorally responsible for any harm done as a result of the deceit.

456 U.S. at 854 (emphasis added).

In *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996), the court applied the *Inwood* doctrine to the operator of a physical marketplace that had been informed repeatedly that vendors to whom it leased space were routinely selling counterfeit recordings that violated plaintiffs' trademarks. The Ninth Circuit held that the market provider could be found liable for contributory trademark infringement despite its being *unaware* of precisely which vendors or which products were counterfeit. It held that the service provider "cannot disregard its vendors' blatant trademark infringements with impunity." *Fonovisa*, 76 F.3d at 265. The court held that the operator could be held responsible for the torts of those to whom it rented space and from whom it derived revenues, if it knew or had reason to know that the sellers were acting or would act in a manner that violated the owners' trademarks but did nothing to halt or police its market for the illegal activity. *Id.*

B. The Second Circuit's Decision Created a Conflict Among the Courts of Appeals on a Issue of Law that Is of Great Importance to Commerce in Trademarked Products.

The Second Circuit purported to apply the *Inwood* "knows or has reason to know" standard in determining the liability of an online market provider. However, it misapplied that principle in a manner that conflicted with the Ninth Circuit's definition of the market maker's duty of care and essentially read out of the law the "reason to know" test, and the

provider's duty to police its market or take action against known illegal activity.

The district court found that "the amount of counterfeit merchandise discovered" by Tiffany in Buying Programs in which it purchased products offered on eBay under a purported "Tiffany" brand "is voluminous" and that "eBay was generally aware that counterfeit Tiffany jewelry was being listed and sold on eBay even prior to Tiffany's initial demand letter." Pet. App., 142a. Nonetheless, despite this knowledge, the Second Circuit found eBay was not liable for contributory infringement because "a service provider must have *more than a general knowledge* or reason to know that its service is being used to sell counterfeit goods." Pet. App., 27a (emphasis added). This holding is directly contrary to the governing "knows or has reason to know" standard of knowledge as applied by the Ninth Circuit's in *Fonovisa*, which held that contributory infringement could be found where the service provider had general knowledge that its service was being used to sell substantial volumes of counterfeit goods.

In particular, the Second Circuit found that, "some contemporary knowledge of which *particular listings* are infringing or will infringe in the future is necessary" for a finding of contributory infringement. Pet. App., 27a-28a. Its conclusion is directly contrary to the Ninth Circuit's holding in *Fonovisa*. There, the Ninth Circuit held that the market provider could be liable despite its being unaware of which specific products being sold through its service were counterfeit, and that the market provider cannot turn a blind eye to its vendors' "blatant trademark infringements." 76 F.3d at 265.

Had the Second Circuit properly applied *Inwood*'s "knows or has reason to know" test, eBay would have been contributorily liable for trademark infringement. The lower court, however, applied a different test, creating a conflicting legal standard in an area where national uniformity is vital. It found that rather than being able to recover based on a showing that eBay had knowledge of a large and persistent volume of sales of counterfeit Tiffany products through its market, the brand owner could recover only upon proof that eBay had "contemporary knowledge of which particular listings are infringing or will infringe in the future." Pet. App., 27a-28a. That holding improperly converted the *Inwood* "knew or should have known" test into a safe harbor that eliminated any duty for eBay to take preventative countermeasures despite its knowledge of massive infringement.

Under the Second Circuit's ruling, eBay is in the same position as a bank that was informed that 50% of the wire transfers conducted by its customers were illegal, but refused to investigate or take affirmative steps to prevent further money laundering on the ground that it did not know which 50% of the transfers was illegal. Under those circumstances, there is little doubt that the bank would have sufficient knowledge to trigger its legal duty of care to take steps to prevent money laundering. *See* Financial Crimes Examination Network, *In re: American Express International Bank*, No. 2007-1 ($25 million civil money penalty for failure to take affirmative monitoring controls after receiving repeated notice for accounts at high risk of money laundering); Deferred Prosecution Agreement, *United States v. Banco Popular de Puerto Rico*, D.P.R., (Jan. 16,

2003), available at www.fincen.gov, Enforcement Action No. 2003-1.

The Second Circuit erred fundamentally in its approach to determining eBay's duty of care. It began by considering the remedial actions eBay had taken after it was notified by Tiffany of counterfeit auctions. In particular, the court focused on eBay's actions under its VeRO notice and take down process, and used this information to reason backwards to define eBay's duty. Pet. App., 7a-13a, 30a. The court should instead have determined the duty first and applied it to the facts found by the district court.

That eBay makes some effort to *respond* to reports of specific instances of counterfeiting has no bearing on what the standard under common law should be as to its *duty* to prevent the sale of counterfeit goods in the face of actual knowledge of widespread counterfeit sale. The court's approach is analogous to a conclusion that because an entity often volunteers to slow down when it is informed that it is exceeding the speed limit, that no speed limit is necessary. The Second Circuit was unduly influenced by eBay's alleged responsiveness *after* being notified of a specific problem auction. It ignored the critical factor under *Inwood*, that eBay had knowledge of large-scale sales of counterfeit Tiffany products through its market over many years, but turned a blind eye to this evidence of substantial illegal activity.

Despite its knowledge that a substantial percentage of purported "Tiffany" goods sold in its market are counterfeit, eBay took no affirmative steps to prevent or reduce counterfeiting other than to take down specific offers that Tiffany had already identified as counterfeit.

The Second Circuit's decision on the standard of liability when a market provider turns a blind eye to evidence of substantial sales of counterfeits conflicts with *Fonovisa*. Unless this conflict is resolved, trademark owners and service providers will face contradictory rulings that will create substantial uncertainty as to the law of contributory trademark infringement, the market provider's duty of care, and their respective policing obligations.

Coty submits that the Court should grant the Petition and resolve this conflict before further harm is done to this important branch of commerce.

CONCLUSION

Amicus Curiae Coty Inc. respectfully requests that the Court grant the Petition for a Writ of Certiorari.

Respectfully submitted,

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